

**KEEGAN, WERLIN & PABIAN, LLP**

ATTORNEYS AT LAW  
265 FRANKLIN STREET  
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:  
(617) 951-1354  
(617) 951-0586

February 4, 2005

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station – 2<sup>nd</sup> Floor  
Boston, Massachusetts 02110

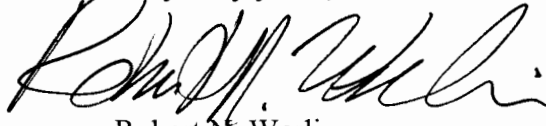
Re: D.T.E. 03-88A, D.T.E. 03-88B, D.T.E. 03-88C, D.T.E. 03-88D, D.T.E. 03-88E  
and D.T.E. 03-88F, Costs To Be Included in Default Service Rates

Dear Secretary Cottrell:

Enclosed for filing on behalf of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company d/b/a NSTAR Electric are the Reply Comments of NSTAR Electric on the Settlement Agreement. Also enclosed is a Certificate of Service.

Thank you for your attention to this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert N. Werlin", written over a horizontal line.

Robert N. Werlin

cc: John Geary, Hearing Officer  
Service Lists

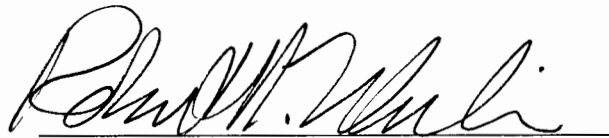
**COMMONWEALTH OF MASSACHUSETTS**

**DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

	)	
Boston Edison Company	)	D.T.E. 03-88A
Cambridge Electric Light Company	)	D.T.E. 03-88B
Commonwealth Electric Company	)	D.T.E. 03-88C
Fitchburg Gas and Electric Light Company	)	D.T.E. 03-88D
Massachusetts Electric Company and	)	
Nantucket Electric Company	)	D.T.E. 03-88E
Western Massachusetts Electric Company	)	D.T.E. 03-88F
	)	

**CERTIFICATE OF SERVICE**

I certify that I have this day served the foregoing document upon the Department of Telecommunications and parties of record in accordance with the requirements of 220 C.M.R. 1.05 (Department's Rules of Practice and Procedures).



Robert N. Werlin, Esq.  
Keegan, Werlin & Pabian, LLP  
265 Franklin Street  
Boston, Massachusetts 02110  
(617) 951-1400

Dated: February 4, 2005

**COMMONWEALTH OF MASSACHUSETTS**  
**DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Massachusetts Electric Company and	)	
Nantucket Electric Company	)	D.T.E. 03-88E
Western Massachusetts Electric Company	)	D.T.E. 03-88F
	)	

**REPLY COMMENTS OF NSTAR ELECTRIC  
ON THE SETTLEMENT AGREEMENT**

**I. INTRODUCTION**

Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company (together, “NSTAR Electric”) file these reply comments in response to the comments filed with the Department of Telecommunications and Energy (the “Department”) in the above-referenced cases.

NSTAR Electric, Fitchburg Gas and Electric Light Company d/b/a Unitil, Massachusetts Electric Company and Nantucket Electric Company, Western Massachusetts Electric Company (together, the “Distribution Companies”), the Attorney General of the Commonwealth and Associated Industries of Massachusetts (collectively, the “Settling Parties”) submitted a Joint Motion for Approval of Settlement Agreement and a Settlement Agreement with the Department on January 21, 2005 (the “Settlement Agreement”). The Settlement Agreement is intended to resolve all issues in the above-referenced cases. In addition to the Settling Parties, Select Energy, Inc. supports the Settlement Agreement and the Division of Energy Resources, the Low-Income

Weatherization and Fuel Assistance Network and Massachusetts Community Action Program Directors Association, Inc. have no objection to the Settlement Agreement. As described below, comments limited to one discrete issue relating to NSTAR Electric were submitted jointly by Constellation New Energy, Inc. and Dominion Retail, Inc. (“Constellation/Dominion”). Comments on that issue and one additional issue relating to NSTAR Electric were submitted by Cape Light Compact (the “Compact”), a non-party, limited participant in the NSTAR Electric cases, only.

## **II. BACKGROUND/THE SETTLEMENT AGREEMENT**

These proceedings were opened by the Department to implement past Department rulings regarding the inclusion in rates for Default Service of certain wholesale and direct retail costs. Order Opening Investigation, D.T.E. 03-88 (2003). Wholesale costs were to include procurement-related costs for: “(1) the design and implementation of the competitive bidding process, including the evaluation of supplier bids and contract negotiations, and (2) the ongoing administration and execution of contracts with suppliers, including accounting activities necessary to track payments made to suppliers.” Id. at 2. Direct retail costs that were to be added to rates for Default Service include: (1) bad debt; (2) compliance with certain regulatory requirements, including communications with Default Service customers; and (3) compliance with the Massachusetts Renewable Energy Portfolio Standards for Default Service customers. Id. at 3. The Department required that each of the Distribution Companies make a filing that identifies those costs and proposes appropriate rate adjustments for Default Service and distribution rates to implement Department requirements. Id. at 4.

On January 20, 2004, the Distribution Companies made their compliance filings with prefiled testimony and supporting documentation. Thereafter, the Department ruled on motions to intervene, and established an adjudicatory schedule, including discovery and evidentiary hearings. Although hearings proceeded, the Settling Parties engaged in continued negotiations, and on January 21, 2005, filed the Settlement Agreement that is the subject of these reply comments.

The Settlement Agreement provides for rate adjustments by each of the Distribution Companies in compliance with the Department's requirements (Settlement Agreement, ¶¶ 2.1 through 2.4) and ensures that the adjustments will be revenue-neutral to each of the Distribution Companies through an annual reconciliation of revenue recovery (Settlement Agreement, ¶¶ 2.6 through 2.7). Each of the Distribution Companies has included a Settlement Appendix to the Settlement Agreement, which identifies the amount of wholesale costs and direct retail costs in conformance with the requirements of D.T.E. 03-88 and computes rate increases for Default Service rates and off-setting decreases for distribution rates to transfer recovery of those costs. The Settlement Agreement provides that the adjustments be implemented "on the first date after March 1, 2005 on which said distribution Company's Default Service rates are changed for all classes of customers" (Settlement Agreement, ¶ 2.4).<sup>1</sup>

In addition, the Settlement Agreement requires that the adjustments/transfers of revenue recovery be "revenue neutral" to each of the Distribution Companies. To

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<sup>1</sup> The post-March 1, 2005 implementation date is consistent with the termination of Standard Offer Service and the transfer of customers taking Standard Offer Service to Default Service. The rate adjustments included in the Settlement Appendices are based on projected sales of Default Service that include both groups of customers (Settlement Agreement at 4, fn.1).

accomplish such revenue neutrality, the level of revenues transferred for recovery to the Default Service rates is generally fixed until a company's next general distribution rate case (Settlement Agreement, ¶ 2.4). However, if a Distribution Company experiences significant increases in customer migration from Default Service to competitive supply, the rate adjustments in the Settlement Appendices may be adjusted to reflect the change (id.). Revenue neutrality is also maintained by the requirement that each of the Distribution Companies performs an annual reconciliation of the transfer of cost recovery to account for the difference between projected sales volumes and actual sales volumes (id., ¶¶ 2.6-2.7).

### **III. STANDARD OF REVIEW**

The Department evaluates proposed settlements using consistent criteria, whether contested or not. Housatonic Water Works Company, D.P.U. 90-284-A at 16 (1992). See also Massachusetts-American Water Company, D.P.U. 90-146 (1990) (contested settlement accepted by the Department as reasonable). The Department applies a standard of reasonableness in reviewing an offer of settlement. Western Massachusetts Electric Company, D.T.E. 01-99, at 7 (2002). In assessing the reasonableness of an offer of settlement, the Department must review the entire record to ensure that the settlement is consistent with Department precedent and the public interest. Bay State Gas Company, D.P.U./D.T.E. 97-97, at 6 (1997), citing, Boston Edison Company, D.P.U. 92-130-D at 5 (1996); Bay State Gas Company, D.P.U. 95-104, at 14-15 (1995); Boston Edison Company, D.P.U. 88-28/88-48/89-100, at 9 (1989). See also Telecommunications Relay Service, D.P.U./D.T.E. 96-118, at 7 (1998).

This reasonableness determination is required by the Department's statutory obligation under G.L. c. 164, §§ 93, 94 and 94A to reach

decisions that are consistent with the public interest and that result in just and reasonable rates and charges.

Housatonic Water Works Company, D.P.U. 90-284-A at 14 (1992).

Settlement differs fundamentally from adjudication in that a settlement may be founded on a less-than-full record or may achieve results that would differ from those reached through adjudication. Massachusetts-American Water Company, D.P.U. 95-118, at 139 (1996), citing Housatonic Water Works Company, D.P.U. 90-284, at 3, *Interlocutory Order on Appeal* (August 27, 1991). See also Boston Edison Company, D.P.U./D.T.E. 97-95, at 25 (2001), citing, Massachusetts-American Water Company, D.P.U. 95-118, at 138-139 (1996) (settlement may achieve results that would differ from or even go beyond those reached or reachable through adjudication).

#### **IV. RESPONSE TO COMMENTS**

None of the comments filed by either Constellation/Dominion or the Compact takes issue with the overall structure of the Settlement Agreement or, with one exception, any of the calculations and rate adjustments included by the Distribution Companies in the Settlement Appendices. Both Constellation/Dominion and the Compact challenge NSTAR Electric's calculation of the bad-debt component of the costs that are to be collected in the rates for Default Service (Constellation/Dominion Comments at 2-5; Compact Comments at 4-5).

As described by Mr. LaMontagne, the NSTAR Electric billing and accounting systems do not isolate the amount of bad debt associated with customers taking Default Service (Exh. NSTAR-HCL at 6). Accordingly, he has allocated the total bad debt for each of the NSTAR Electric companies to Default Service in accordance with a revenue allocator (id.). Both Constellation/Dominion and the Compact request that the

Department order NSTAR Electric to spend approximately \$100,000 (RR-DTE-4) to modify its systems so that it can more accurately isolate the bad-debt amounts associated with Default Service customers (Constellation/Dominion Comments at 4; Compact Comments at 4-5).<sup>2</sup> For the following reasons, the comments of Constellation/Dominion and the Compact regarding bad debt are without merit.

The Department's standard for review of a Settlement Agreement is "reasonableness" and the comments about the accuracy of NSTAR Electric's bad-debt calculation is, at best, a trivial pursuit for false precision. It should be noted that the entire amount of bad debt being transferred for recovery from distribution rates to Default Service rates is less than \$8 million out of total revenues of over \$2.2 billion or an impact of approximately \$0.00039 per kilowatthour ("kWh") on distribution rates (Exh. NSTAR-HCL-1 (Settlement); Exh. NSTAR-HCL-2 (Settlement)).<sup>3</sup> In their comments, Constellation/Dominion reproduce a table that purportedly demonstrates that NSTAR Electric's bad-debt amounts are significantly different from other companies and, therefore, a more precise calculation by NSTAR Electric would result in a different result (Constellation/Dominion Comments at 2-3). However, Constellation/Dominion concedes that the table was prepared using data from existing customers and that the updated amounts (which include customers of both Default Service and Standard Offer Service) as presented Settlement Appendices may have "muted" the differences (id. at 3). This is

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<sup>2</sup> The Compact suggests that the incremental costs associated with modifying the NSTAR Electric billing and accounting systems be recovered in rates for Default Service (Compact Comments at 4). Were the Department to order such modifications, which NSTAR Electric believes is unnecessary, it would be appropriate to recover those incremental costs in Default Service rates, without any off-setting credit in distribution rates.

<sup>3</sup> For a customer with average monthly use of 500 kWh, this would amount to less than 20 cents per month.



indeed the case. Recreating the same table using the updated data contained in the Settlement Appendices yields the following results:

	Default Service/Standard Offer Bad Debt	Total Company Bad Debt	Ratio
MECo	\$7,810,862	\$14,846,038	52.61%
Fitchburg	\$171,730	\$405,501	42.35%
Boston Edison	\$6,406,258	\$15,694,750	40.82%
Commonwealth	\$1,236,178	\$3,356,715	36.83%
Cambridge	\$287,978	\$514,954	55.92%

The ratio of bad debt for the combined Default Service and Standard Offer Service customers now captures nearly 80 percent of the load (and a higher percentage of total customers), and there is no reason to believe that determining the exact amount of bad debt for these customers will render a result materially different from Mr. LaMontagne's use of the bad-debt experience of all of the customers of each company.

Finally, Constellation/Dominion argue that NSTAR Electric should use the experience of Massachusetts Electric Company as a proxy for NSTAR Electric's bad debt. Not only is this an unreasonable departure from the Department's requirement that the compliance filing of each of the Distribution Companies be based on "its" costs (D.T.E. 03-88, at 4), but the updated information included in the Settlement Appendices shows that the average Default Service adjustment and distribution service credit for Massachusetts Electric Company and NSTAR Electric are very similar. In fact, the average Default Service adder for NSTAR Electric (\$0.00050 per kWh) is now higher than the comparable average for Massachusetts Electric Company (\$0.00045 per kWh). Compare Exhibit NSTAR-HCL-1 (Settlement Appendix D.T.E. 03-88A-C) and Page 1 of 2 (Settlement Appendix D.T.E. 03-88E).

NSTAR Electric's methodology for determining the bad-debt amounts for customers taking Default Service as of March 1, 2005 is reasonable, and there is no reason to reject the Settlement Agreement or order the wasteful expenditure of resources in search of unnecessary levels of precision. Accordingly, the comments of Constellation/Dominion and the Compact on this issue are without merit.

Finally, the Compact argues that the Settlement Agreement should be rejected because it does not require a constant updating of the costs to account for load growth (Compact Comments at 5). Although the Settlement Agreement does fix the costs transferred (consistent with Department ratemaking precedent that "fixes" a representative level of costs when distribution rates are set), it specifically contemplates that a significant change in load, i.e., an increase in migration of customers from Default Service to competitive service, could trigger a further rate adjustment (Settlement Agreement, ¶ 2.4). Thus, the Settlement Agreement provides for an adjustment to capture material changes. It is not reasonable and it is inconsistent with Department ratemaking practices to adjust levels of costs for routine load changes that would have little or no impact on the overall magnitude of the rates and would certainly have no material impact on competition. The Compact's comments should be rejected.

## **V. CONCLUSION**

As is evident from the record in this case and the appendices contained in the Settlement Agreement, the size of the rate adjustments required to comply with Department rulings is not large. However, the issue of including costs in Default Service rates has engendered much debate over the past several years in a number of dockets, and it is now time to conclude the proceeding. The Settlement Agreement properly

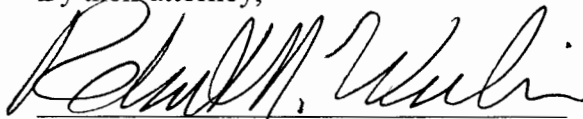
implements the Department requirements, and will produce a fair and reasonable resolution of the cases. The comments filed in opposition are both narrow and without merit. For all of the foregoing reasons, NSTAR Electric respectfully requests that the Settlement Agreement be approved by the Department.

Respectfully submitted,

**BOSTON EDISON COMPANY  
CAMBRIDGE ELECTRIC LIGHT COMPANY  
COMMONWEALTH ELECTRIC COMPANY**

**d/b/a NSTAR ELECTRIC**

By their attorney,

A handwritten signature in black ink, appearing to read "Robert N. Werlin", is written over a horizontal line.

Robert N. Werlin, Esq.  
Keegan, Werlin & Pabian, LLP  
265 Franklin Street  
Boston, MA 02110  
(617) 951-1400

Dated: February 4, 2005